Mutual Funds

Accent on Performance Shows Up in Results; Growth Funds Excel

By J. A. LIVINGSTON

Performance — achieving above-average stock market gains—has become a significant factor in mutual fund investing. This is suggested in my latest tabulation of results—both for funds which charge a sales commission and those which don't. The former are called "load funds," the latter, "no loads."

In all, 166 mutual funds are included in the study. Of these, 22 are no-loads, not a fully reliable sample for all statistical purposes. However, the results are consistent with four previous surveys. Managers of load funds have a hard time overcoming the load, the handicap, of the sales commission.

This is especially true for short periods—three years and one year. Note how the rankings of no-load funds tend to rise in the column How Investors Fared (HIF) as compared with How Management Performed (HMP).

The basic data are derived from *Investment Companies*, published by Arthur Wiesenberger Services, a division of Nuveen Corp.

Four Classes, Four Periods

Funds are grouped into four classes: Those stressing (1) safety and stability by balancing stock and bond holdings; (2) income; (3) growth; (4) a combination of growth and income.

Four periods ending Dec. 31, 1967 are covered: Ten years (1958-67); five years (1963-67); three years (1965-67); and one year (1967). If percentages are not shown, a fund was not operating at the start of the period.

Wiesenberger arrives at a net percentage gain or loss by combining changes in assets, income paid out in dividends, and assumed reinvestment of capital gains distributions.

Such data do not take into account the cost of acquiring a mutual fund. They reflect management rather than investment results. Example: Assume a $1,000 investment in two funds, one with a sales commission (load) of 8.5% on the purchase price (9.3% on the amount invested), and one without a sales commission (no-load). In one case, the management receives only $915 to invest, in the other case the full $1,000.

If each fund showed a 5% gain on assets in one year, the table headed "How Management Performed" (HMP) would rate them equal—a 5% gain—even though the investor in the load fund would have only $961 and the no-load investor would have $1,050 at the end of one year.

Effect of Sales Charge

In the table headed "How Investors Fared," the load fund would show a loss of about 4% on the original investment. The no-load fund would register the same 5% gain—the same as in the HMP table.

At the right of each fund's percentage is its performance rank. Ties are indicated by dual numbers. Four funds tied for third would be 3-6; that is, third, fourth, fifth and sixth. The no-load funds are shown by asterisks and bold-face type. Low-load funds—those with sales commissions of 3% or less—are indicated by a dagger.

The percentage gains are averaged for load funds and no-loads. These are shown at the bottom of each grouping. In terms of "How Management Performed," results were a standoff. No-loads topped load funds in four instances; the load funds topped the no-loads four times; and in four instances the percentage gains were so close that they had to be called ties.

The above tally excludes the "Income Group" in which there was only one no-load fund—Northeast Investors Trust, a fund whose common stock holdings comprise less than 40% of assets. It is essentially a bond fund. In terms of "How Investors Fared," results of the no-load funds (with the Income Group again excluded) were superior.

Change in Emphasis

The Growth Group easily outperformed the Standard & Poor's average of 500 stocks (adjusted to include cumulative dividends) in all four periods.

In the Growth and Income Group, funds outperformed the S&P average in the five-, three- and one-year periods, but only the no-loads did better in the ten-year period. Moreover, the margin of "out-performance" was not as marked as in the Growth Group. Understandably, the income objective diluted the growth objective.

Income funds matched the S&P 500 once—last year. And the Balanced funds, which customarily hold 20% to 35% of their assets in bonds and preferred stocks, lagged far behind. This is to be expected in a bull market.

Footnote: In earlier periods — say the periods ending in 1962 or 1964, the funds did not outperform the S&P 500 as consistently—even in the Growth Group. Performance — concentration on growth stocks for capital gains — became a mutual fund "must" only in recent years.